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BEFORE THE ARIZONA CORPORATI

COMMISSIONERS

BOB STUMP – Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission
DOCKETED
AZ CORP COMMISSION
DOCKET COURT

2013 MAR 5 AM 11:52 MAR 5 2013



IN THE MATTER OF THE APPLICATION
OF SULPHUR SPRINGS VALLEY
ELECTRIC COOPERATIVE, INC., FOR AN
ORDER APPROVING A COMPREHENSIVE
CREDIT MANAGEMENT PROGRAM AND
SUPERSEDING AND REPLACING
CERTAIN CONDITIONS CONTAINED IN
DECISION 72237 PERTAINING TO THE
REFINANCING OF SSVEC'S EXISTING
AND AUTHORIZED DEBT.

DOCKET NO. E-01575A-12-0457

**NOTICE OF FILING FITCH RATINGS
PRESS RELEASE**

On March 1, 2013, Fitch Ratings ("Fitch") issued a press release announcing that the rating agency has assigned an initial A- rating with a stable outlook to the senior secured obligations of Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"). A copy of the press release is attached hereto as Attachment 1. SSVEC anticipates Fitch will issue its rating report within the next two to three weeks, and SSVEC will docket a copy of the ratings report once it is available.

RESPECTFULLY SUBMITTED this 5th day of March, 2013.

BROWNSTEIN HYATT FARBER SCHRECK,
LLP

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1 ORIGINAL and thirteen (13) copies of the
2 foregoing filed this 5th day of March, 2013, with:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington Street
6 Phoenix, Arizona 85007

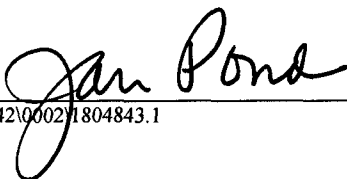
7 COPY of the foregoing hand-delivered
8 this 5th day of March, 2013, to:

9 Steve Olea, Director
10 Utilities Division
11 ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Lyn Farmer, Chief Administrative Law Judge
15 Hearing Division
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Attachment 1

FitchRatings

FITCH ASSIGNS INITIAL 'A-' SR. SECURED RATING TO SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, AZ

Fitch Ratings-San Francisco-01 March 2013: Fitch Ratings has assigned an initial 'A-' rating to Sulphur Springs Valley Electric Cooperative (SSVEC), AZ's implied senior secured obligations.

The SSVEC rating takes into account approximately \$168 million of secured debt obligations but is implied since none of the debt is publicly held.

The Rating Outlook is Stable.

SECURITY

SSVEC's senior secured obligations are secured by a lien on substantially all of its assets.

KEY RATING DRIVERS

ELECTRIC DISTRIBUTION COOPERATIVE: SSVEC is a non-profit, distribution cooperative providing electricity to a primarily residential customer base of approximately 52,000 in southeastern Arizona.

PARTIAL REQUIREMENTS POWER SUPPLY: Power supply is met (approximately 80%) through a long-term, partial requirements contract with the Arizona Electric Power Cooperative (AEP CO); supply needs not provided by AEP CO are purchased on the market.

IMPROVED FINANCIALS: Financial metrics improved in fiscal 2012 with debt service coverage at 1.96 times (x) and equity at 32.5%. Very low cash reserves (two days cash on hand) are supplemented by external short-term lines of credit, but total liquidity is still low for the rating.

RATE REGULATED ENTITY: SSVEC's and AEP CO's rate flexibility are somewhat limited as rates are subject to approval by the Arizona Corporation Commission (ACC). While the ACC's recent adoption of a streamlined rate process could result in a more supportive environment, Fitch views SSVEC's ability to recover costs in a full and timely manner with some concern.

ENVIRONMENTAL COST PRESSURE: Power costs may increase significantly depending on the outcome of a still unresolved dispute between AEP CO and the Environmental Protection Agency (EPA) over haze related emissions from its two coal units. AEP CO is appealing the ruling; the timeframe for a resolution is uncertain.

MANAGEABLE CAPITAL NEEDS: SSVEC's system-based capital needs are manageable and largely consist of distribution and sub-transmission system improvements.

MIXED SERVICE AREA: SSVEC's service area is a mix of semi-urban, rural, and agricultural areas with moderately below average income levels and below average job growth. Energy sales and peak demand have remained fairly stable over the past few years.

RATING SENSITIVITY

INCREASED COST OF POWER: An unfavorable resolution to the ongoing dispute between the EPA and AEP CO that significantly raises SSVEC's cost of power could put downward pressure on the rating unless offset, as expected, by SSVEC's wholesale power and fuel cost adjustor.

CREDIT PROFILE

SSVEC is a not-for-profit, distribution cooperative providing electric service to a primarily residential customer base totaling 51,752 (fiscal 2012) in Southeast Arizona. SSVEC's service area

includes most of Cochise County and portions of Pima, Santa Cruz, and Graham Counties.

SSVEC's customer base is primarily residential (81%), although residential customers accounted for less than half (43%) of total energy sales in fiscal 2011. A non-concentrated group of commercial and industrial customers accounted for 37% of sales with irrigation customers, consisting of the water pumping needs of agricultural interests, comprising the bulk of the remainder at 19% of sales.

RATE REGULATION LIMITS FLEXIBILITY

Arizona is one of the few states where municipal and cooperative electric utilities, including SSVEC and its power supplying cooperatives, are subject to fiscal and operating oversight by a state regulatory commission. Fitch generally views regulatory oversight unfavorably, as state commissions add a layer of uncertainty and lag in terms of cost recovery and are a challenge not shared with most other public power entities.

SSVEC benefits from a wholesale power and fuel cost adjustor (WPFCA) that was approved by the ACC in April 2012. The WPFCA allows SSVEC to automatically pass through increases and decreases in wholesale power costs within a specified range without seeking additional ACC approval. Fitch views the WPFCA positively as it can be used to offset power cost volatility.

ENVIRONMENTAL REGULATION MAY RAISE COSTS

AEPCO provides SSVEC with power primarily from its dual-fuel capable (coal and natural gas) but principally coal-fired Steam Units 2 and 3 (ST2 and ST3) located at Apache Generation Station in Cochise County. The EPA issued a final ruling in November 2012 imposing stricter haze related emission standards on several power facilities within Arizona, including the Apache Station.

The installation of expensive selective catalytic reduction (SCR) emission control technology in combination with other emissions control equipment may be necessary to reduce emissions to the EPA required level. AEPCO appealed the EPA's decision in early February 2013. The two parties remain in negotiations with an uncertain timeframe for final resolution.

An unfavorable ruling for AEPCO and the subsequent installation of SCR and related emissions reduction equipment would likely lead to a significant increase in AEPCO's wholesale power rate that would pressure SSVEC's financial performance without a commensurate increase in retail rates.

IMPROVED FINANCIAL METRICS; LOW LIQUIDITY

SSVEC's financial metrics improved in recent years due to increased energy sales and higher rates effective for partial fiscal year 2010 (full fiscal year 2011). Fitch calculated debt service coverage improved to 1.84x and 1.96x in fiscals 2011 and 2012, respectively, from a low of 1.27x in fiscal 2009. Equity as a percentage of capitalization increased incrementally in fiscal 2012 to 32.5% from 28.4% in fiscal 2009.

SSVEC's cash position is very low with only two days cash on hand at the end of fiscal 2012, which is a significant concern. Maintaining minimal cash reserves and using lines of credit to meet working capital needs have been part of management's strategy to keep rates as low as possible. However, relying on external sources of credit, as opposed to holding sufficient cash on hand, as the primary source of liquidity presents greater risk. SSVEC's line of credit for fiscal 2013 amounts to \$17.6 million, leaving liquidity at a still low 76 days.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria and U.S. Public Power Rating Criteria, this action was informed by information from CreditScope.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 12, 2012);
--'U.S. Public Power Rating Criteria' (Jan. 11, 2012).

Applicable Criteria and Related Research
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696027

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